REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NORTH EASTERN NATIONAL POLYTECHNIC

FOR THE YEAR ENDED
30 JUNE, 2019

THE NORTH EASTERN NATIONAL POLYTECHNIC

Knowledge & Skills for Reliance

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HARAMBEE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2019

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector

TABLE OF CONTRENTS

I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

North Eastern National Polytechnic, NENAP is the former North Eastern Province Technical Training Institute or NEPTTI. The institution became a National Polytechnic through the North Eastern National Polytechnic legal order of 30th May 2016, under legal Notice No 89 provided for in Technical and Vocational Education and Training (TVET) Act 2013.
The Polytechnic is situated within Garissa Township and occupies a 58-acre piece of land. The Institution was established as a community-based Technical Secondary school in 1983. In 1985 it was taken over by the Government and in 1998 it was converted to a Technical Training Institute a status it has held for three decades before assuming its current status as a National Polytechnic. Currently it is the only Government National polytechnic that offers Vocational, Technical and Entrepreneurial training in the whole of North-Eastern province and its environs.

NENAP has a strategic plan and is managed by a Governing Council appointed by the Ministry of Education and run on a day-to-day basis by a Principal who is appointed under the State department Vocational and Technical Training.

(b) Principal Activities

The principal activity/mission of the *entity* is to train highly skilled workforce that is suitable for further professional development through quality inclusive and equitable TVET programs responsive to national and global competitiveness, implementing training in TVET programs, carrying out research programs, and innovation into products and services

The core functions include

The core functions of North Eastern National Polytechnic is to—

(a) Provide directly, or in collaboration with other institutions of higher learning, facilities for technical trainers in technological, professional, scientific education; conduct examinations for and grant such academic awards as provided under the polytechnic order.

(b) Participate in technological innovation as well as in the discovery, transmission and enhancement of knowledge and to stimulate the intellectual life in the economic, social cultural, scientific, and technological development;

(c) Contribute to industrial and technological development of Kenya in collaboration with industry and other organizations through transfer of technology and adopting programs that address the needs of the local community and the Nation at large.

(d) Develop an institution with excellence in teaching, training, scholarship, entrepreneurship, research, consultancy, community service, among other educational services and products, with emphasis on technology and its development, impact and application within and outside Kenya.

(c) Entity Headquarters

MINISTRY OF EDUCATION
STATE DEPARTMENT OF VOCATIONLAL & T.T
TELEPOSTA BUILDING/KENYATTA AVENUE
P. O Box 9853 – 00200, NAIROBI
KENYA

(d) Entity Contacts

Telephone :(254)716 0601788/724750704
E-mail: info@northeasternpoly.ac.ke
Website: www.northeasternpoly.ac.ke

(e) Entity Bankers

1. Central Bank of Kenya
   Haile Selassie Avenue
   P.O. Box 60000
   City Square 00200
   Nairobi, Kenya

2. Kenya Commercial Bank
   Garissa Branch
   Garissa, Kenya

(f) Independent Auditors
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

I KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(g) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112 City Square 00200
Nairobi, Kenya

(h) Council Members

Insert each Director's passport-size photo and name, and key profession/academic qualifications	Provide a concise description of each Director's date of birth, key qualifications and work experience
– Council Chairman  MOHAMMED ADBI SHEIKH	• 52 yrs Old, Certified project management professional, APM Group (UK), 2013 • Master's in Business Administration, (HRM &StrgMgt) UoN 2008 • Certified Public Secretary CPS(K) KASNEB 2006 • Bachelor of Arts BA& Econ, Moi University,1991
- Council Member  SHAKIR HUSSEIN MOHAMED	• 44 years old, Master of Science (Finance and Investment) from KCA University. • Bachelor of Business Administration-Finance Option from Kenya Methodist University • Certified Public Accountant of Kenya (CPA K)
– Council Member  HALIMA HUSSEIN SHEIKH	• Halima is 49 years old, has Bachelor of Business Management, Human Resource option from Mount Kenya University • Has Diploma in Project Management – Cambridge Association of Managers, United Kingdom • Diploma in Business Administration and Management – The Association of Business Executive, London • Diploma in information technology from the Institute of Commercial Management United Kingdom

<table>
<tr><td>- Council Member

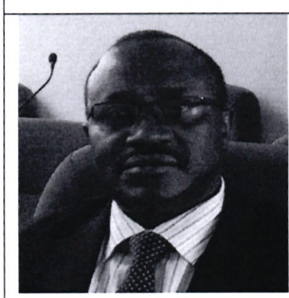
ALI HASSAN DUBAT</td><td>Hassan is 63 years old and has a Master's Degree in Special and Inclusive Education from University of Manchester.
Has Bed in Special Education from Kenyatta University.
He once served as Head of a Public Institution.
Currently a proprietor of a private educational establishment at Garissa town.</td></tr>
<tr><td>- Member

HASSAN NOOR</td><td>Hassan Noor is 63 years old and has a Higher Diploma in Mechanical Engineering from Mombasa Polytechnic
Has a Mechanical Engineering Technician part III (1987)
Has a Mechanical Engineering Craft part II (1986)
He is a trained Technical teacher from Kenya Technical Teachers College</td></tr>
<tr><td>– Member

BASHIR HASSAN MURSAL; OGW,</td><td>Bashir is 62 years old and has MSc. Project Planning and Management: University of Nairobi,

B. Ed TVET University of Bolton UK,

Diploma in Telecommunications & Final Craft in Building Engineering East African Posts and Telecommunication Training School,

Craft III and final craft building in Plumbing option & Diploma in Technical Education, Kenya Technical Teachers College,</td></tr>
<tr><td>
JOSHUA MUNNYWOKI
Principal</td><td>Mr Joshua Munywoki is the Principal of North Eastern National Polytechnic and the Secretary to the Governing Council.

He has a Masters Degree in Building and Civil Engineering.</td></tr>
</table>

(i) Board Committees *(it should be as they appear in the annual financial statements)*

Name of the Committee	Members
a) Finance, infrastructure and HRM committee	1. Shakir Hussein - Chairman 2. Hassan Noor - member 3. Dr.Abdirahman Ali. - DTVET 4. Joshua Munywoki - Principal 5. Vincent Ohana - Finance
b) Audit/Risk Management committee	1. Arab Mohamed - Chairman 2. KassimShakul - DP Admin 3. Dr.Abdirahman Ali - DTVET
c) Education Training and Research committee	1. Hassan Dubat - chairman 2. Mohamed S. Abdi - Member 3. Hassan Noor - Member 4. Halima Sheikh - Member

I KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(a) Key Management*(it should be as they appear in the annual financial statements and should be key personnel of the entity involved in Key decision making and running of the entity)*

Name of the Staff	PHOTO	Responsibility
JOSHUA MUNYWOKI KALOLA		PRINCIPAL/SECRETARY TO GOVERNING COUNCIL
ABDIRAHMAN KASSIM SHAKUL		DEPUTY PRINCIPAL, ADMINISTRATION
MS MARGRET WANJIRU		DEPUTY PRINCIPAL, ACADEMICS
MOHAMED SORA		REGISTRAR
GEOFFREY MANONO		EXAMINATIONS OFFICER
JOHN GITHINJI		DEAN OF STUDENTS
VINCENT OHANA		FINANCE OFFICER
ABDIRIZACK SHEIKH		PROCUREMENT OFFICER

CHAIRMAN'S STATEMENT

The office of the Chairperson of the governing council of the North Eastern National Polytechnic (NENAP) has been active during the year under review in managing the affairs of the Polytechnic. We reckon the existing challenges including the issues of security, learning facilities, fewer teaching resources but above all the culture that associates technical training with mundane life. This requires change in the mindset of our people as we leveraged on the leaders to sensitize and educate our people to embrace the concept of technical and vocational training for our youth. The council is committed to ensuring that the changing world around is sensitive to the needs of the future.
We have continued to collaborate with a number of agencies both public and private sector in our endeavor to grow the institution. Our desire to achieve and deliver on our mandate has seen our drive in reaching out to each and every other partner willing to work with us.

During the year under review, the Polytechnic management has carried out an aggressive popularity campaign in Garissa County and its environs. Our mandate is to grow the student population through a number of strategies including effective outreach programs geared to popularize the institution from within and around the County. On matters of security, the management has put certain measures in place to beef security. This gesture of security provision has boosted somewhat the level of security in the institution to both staff and students.

As a council, we endeavor to continually putting in place governance systems to ensure that we not only comply with the code of ethics but engage in prudent leadership practices that creates value for the Polytechnic. The Polytechnic has remained a good corporate citizen that meets its obligations for its staff and students as well as the national obligation

The Polytechnic registered remarkable development during the period under review in the realization of its mandate with support of the Ministry of Education, state department of Vocational and Technical Training. As a result, the polytechnic has now been able to steer its progress through market research, linkages, collaboration and partnerships. The polytechnic continues to register an overall improvement in its performance due to enhanced resources, physical facilities and infrastructure.

Special thanks go to the State Department of Vocational and Technical Training, Ministry of education, the County Government of Garissa and all other development partners for the support they continue to accord the polytechnic, without which our achievements would not have been realized. Finally I wish to appreciate my Council members and the management staff for their efforts in supporting the realization of the polytechnic mandate.

Mohamed S Abdi
Chairman/Governing Council

PRINCIPAL/COUNCIL SECRETARY'S REPORT

Pursuant to Section 83 of the Public Finance Management Act, 2012, I take this opportunity to present the polytechnic's Annual report and financial statements for the period ended 30 June 2019. The report focuses on the Polytechnic's Strategic intent enshrined in our performance contract which include Improvement of physical facilities and infrastructure, curriculum development, acquisition of workshop equipment and ICT infrastructure, advancement of TVET programs by promoting Research & Innovation, Partnership/ linkages and environmental management. Further to this the Polytechnic envisages to strengthen its financial base through promotion of good governance and effective management.

The above strategic issues are part of broad initiatives undertaken by the Polytechnic planning system to impart relevance to current National TVET reforms. This defines the polytechnic's mandate aimed at enhancing quality, competitiveness, creativity and innovativeness in TVET education. This report is premised on involvement on account of analysis of goals, strategic issues, strategic objectives, strategies and activities that the polytechnic intends to pursue in the next three years. The mandate of the Governing Council among other things is to provide apex management towards achieving the polytechnic mandate as per the TVET Act 2013. In the year under review the Polytechnic intents to employ through the PSC Vocational and Technical Trainers 24 new trainers.

The polytechnic has deepened collaboration towards enhancing staff capacity as well as incorporating best international practices. The polytechnic still expects to benefit from KEFEP collaboration through acquisition of ICT- automotive lab and a smart classroom among other things. The Polytechnic is an active player in the research and innovation initiatives.

The Polytechnic is committed to ensuring that the compound is beautified and landscaping within the compound is continually improved, since image is everything.

Challenges

The polytechnic emphasizes on the need for adequate staffing for the effective education in all departments. Majority of the departments do not have sufficient staff to handle the trainees. Shortage of trainers is therefore one of the challenges facing the Institution. In order to alleviate the shortage the polytechnic has been hiring part-time staff to teach the trainees. The staff are paid by the polytechnic from its meagre resources. During the 2018/2019 financial year, the polytechnic maintained 17 trainers under the council but the number is likely to increase due to our increased programs.

Continuous dynamism in the ICT sector where both upgrade and updates of website are a priority. LAN enhancement as well as campus management system are not one-off systems for they require continuous upgrade. The systems are important for they assist student admissions, fees processing, payments and examinations registration.

The polytechnic mandate by the TVET Act 2013 is expanded to ensure that training and research are top in our agenda. In order to effectively deliver on this mandate the polytechnic envisages to enhance capacity and deepen its training skills.

Joshua Munywoki

Principal/Secretary to Governing Council

CORPORATE GOVERNANCE STATEMENT

The polytechnic affirms that good corporate governance is simply good business. The polytechnic commits to ensure that we comply with the statutory and all the legal requirements as well as meeting the set deadlines.

The core mandate of the institution is training as well as carrying out research activities. This entails imparting CBET skills, attitude and knowledge to the trainees. There are six (6) departments and basically engineering courses collectively form our centre of excellence including Building and Civil Engineering, Electrical Electronics, Mechanical & Automotive, Information Communication Technology, Business studies, Community development and Secretarial departments.

The current student population by the close of the year under review stood at stand at 870 students. We have always endeavoured to ensure that we hit the 1000 mark but this has been a challenge. The total staff population is about 52 trainers, both the PSC employees together with these on contract.

During the year under review, the polytechnic engaged in several regional and national activities such as ball games and sports at national level in Nyeri County, drama and music festivals in Nakuru and TVET fair exhibitions and robotic contests in Mombasa County.
Senior staff during the year underwent several capacity building sessions in Kisumu, Mombasa, and Nairobi to increase their management skills.
Currently, the polytechnic is partnering with KIRDI in the areas of Artisanal Nyir nyir meat processing pilot plant. The plant aims at training local farmers in high-end meat processing technologies.

The polytechnic has been a mentoring institution in the implementation of the up-coming TVET institutions as construction projects. The projects, located in Garissa County are in Lagdera Balambala and Ijara sub-Counties. Other projects are in Mandera North, Rhamu, Elwak, and Tarbaj in Wajir, Tana river and Garbatulla in Isiolo County.

Joshua Munywoki

PRINCIPAL/SECRETARY TO GOVERNING COUNCIL

MANAGEMNET DISCUSSION ANALYSIS

SECTION A

The entity's operational and financial performance

1) Given the negative cash flow for the quarter, this represents the correct, true picture of our financial situation, however, this is not expected to continue up to the financial year as we project to enrol more students in the next years and get capitation from the government to boost our income/ revenue.
(2) The Council commits to ensure that a proper management structure is in place and to make sure that the structure functions to maintain corporate integrity, reputation and responsibility.
(2) The Council has a commitment to monitor and evaluate the implementation of strategies, policies, and management criteria and plans of North Eastern National Polytechnic.
(3) The Council constantly reviews the viability and financial sustainability of the Polytechnic once every year.
(4) The Council commits to ensure that the North Eastern National Polytechnic complies with all the relevant laws, regulations, governance practices, accounting and auditing standards.

Challenges

- **In Security in the region has hindered growth in the polytechnic and this has contributed to Low enrolment in the polytechnic.**
- **Hardship related issues hinder capacity growth of our staff and this results to low staff moral and little or no income generating activities to generate more income to the institution**
- **Inadequate physical facilities in the polytechnic such as student hostels are some of the challenges relating to low enrolment**

SECTION B

Entity's compliance with statutory requirements
The polytechnic has no court cases at the moment.as at the quarter the polytechnic had complied with the statutory obligations as far as debt payment to our creditors. However our books of accounts had not been audited in the last financial year by the auditor general.

SECTION C

Key projects and investment decisions the entity is planning/implementing
Most of our projects are financed by partly by our internal generated revenue, and mostly grants from Government and Development partners, borrowings. A statement on sustainability is not available.

SECTION D

Major risks facing the entity

Operational risks in the polytechnic

- ***Loss of funds through student document forgery during payment of tuition and examination fee.***
  Mitigation, Polytechnic intends to procure Student Biometric systems once procured will check the problem.
- ***Loss of funds through scrupulous suppliers and service providers providing inferior materials and services.***

  Mitigation, Enhanced inspection and monitoring of both works and services.

- ***Risk to loss of funds through downtime on internet and LAN systems.***
  Mitigation, Signed Maintenance service contract to upgrade the equipment.

- ***Loss of portable workshop tools and equipment from the workshop stores***
  Proposal to carry out asset registration and asset tagging to identify tools and equipment from risk of pilfer and theft.

SECTION E

Material arrears in statutory/financial obligations
By the close of year in question, the polytechnic had some pending bills as indicated but did not have any loan default or tax default on pension obligations to the exchequer. The polytechnic has a normal loan repayment of the bus, which is almost ending.

SECTION F

The entity's financial probity and serious governance issues
The polytechnic has management committees and policies are in place to ensure that governance issues are well taken care of So far there has not been any conflicts of interest from among the council members

REPORT OF THE COUNCIL

The Council/Board members submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the *entity's* affairs.

Principal activities

The principal activities of the entity continue to be provision of technical and vocational training

Results

The results of the entity for the year ended June 30are set out on page 18 to page 63

COUNCIL

The members of the Board /Council who served during the year are shown on page 3 and 4.

Auditors

The Auditor General is responsible for the statutory audit of the *entity* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

STATEMENT OF COUNCIL MEMBERS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (*section 14 of the State Corporations Act, and section 29 of schedule 2 of the Technical and Vocational Education and Training Act,2013 - (entities should quote the applicable legislation under which they are regulated)*) require the council members to prepare financial statements in respect of that *entity*, which give a true and fair view of the state of affairs of the *entity* at the end of the financial year/period and the operating results of the *entity* for that year/period. The council members are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The council members are also responsible for safeguarding the assets of the *entity*.

The council members are responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *entity*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The council members accept responsibility for the *entity's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (*the State Corporations Act, and the TVET Act*) – *entities should quote applicable legislation as indicated under)*. The council members are of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2xxx, and of the *entity's* financial position as at that date. The council members further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the council members to indicate that the *entity* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The *entity's* financial statements were approved by the Board on 27TH SEPT 2019 and signed on its behalf by:

Council Member	Council Member
HASSAN DUBOT	HASSAN NOOR SHEIKH

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NORTH EASTERN NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of North Eastern National Polytechnic set out on pages 18 to 61, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the North Eastern National Polytechnic as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Statement of Financial Performance

The statement of financial performance reflects prior year balances in respect to use of goods and services, repairs and maintenance, general expenses and finance costs of Kshs. nil, Kshs.39,050,703 and Kshs. nil which differs with Kshs.2,191,654, Kshs.35,733,630 and Kshs.1,033,417 respectively, reflected in Notes 9, 14 and 15 to the financial statements.

Further, the statement reflects current year balances in respect to transfers from the National Government, rendering of services and employee costs of Kshs.38,440,000, Kshs.13,760,718 and Kshs.14,978,075 which differs with Kshs.38,132,332, Kshs.13,821,218 and Kshs.14,670,875 respectively, reflected in Note 6, Note 7, and Note 10 to the financial statement.

In the circumstances, the accuracy of the statement of financial performance for the year ended 30 June, 2019 could not be confirmed.

1.2 Statement of Financial Position

(a) The statement of financial position reflects Kshs.4,779,444 in respect to cash and cash equivalent as at 30 June, 2019 while Note 16 reflects a balance of Kshs.4,778,446 resulting to a variance of Kshs.998. Further, Note 17 - Detailed analysis of cash and cash equivalents reflects a balance of Kshs.6,369,451 which differs with the balance of Kshs.4,778,446 by Kshs.1,591,005 which was not explained or supported.

(b) The statement reflects property, plant and equipment balance of Kshs.574,330,300 as at 30 June, 2019, which varies with the prior year balance of Kshs.577,914,218 by 3,583,918, the variance varies with the depreciation amount of Kshs.4,514,850 in the year under review.

(c) The statement reflects nil balances for accumulated surplus and capital fund both in the current and prior year, while the statement of changes in net assets reflect accumulated deficit and capital fund of Kshs.23,722,221 and Kshs.72,282,752 respectively in the current year and accumulated surplus and capital fund of Kshs.4,612,653 and Kshs.31,700,000 respectively in the prior year.

(d) The statement reflects a prior year total assets balance of Kshs.619,052,359 while a recasting of the balances total to Kshs.618,120,777 resulting to a variance of Kshs.931,582.

In the circumstances, the accuracy of the statement of financial position as at 30 June, 2019 could not be confirmed.

1.3 Statement of Changes in Net Assets

The statement of changes in net assets reflect prior year and current year capital fund balances of Kshs.31,700,000 and Kshs.40,582,752 respectively, while Note 6 to the financial statements reflects a prior year total of Kshs.11,700,000 which was included under revenue in the statement of financial performance and current balance of Kshs.38,035,504. The variances were not reconciled or supported.

In the circumstances, the accuracy of the total balance of Kshs.48,460,531 reflected in the statement of changes in net assets for the year ended 30 June, 2019 could not be confirmed.

1.4 Statement of Cash Flows

The statement of cash flows reflects transfers from other Government enties balance of Kshs.29,344,443 which differs with the statement of financial performance balance of Kshs.38,440,000 and Kshs.38,132,332 reflected in Note 6 to the financial statement. In addition, the statement reflects finance cost balance of Kshs.39,754 while the statement of financial performance and Note 15 to the financial statement reflects an amount of Kshs.250,224 resulting to a variance of Kshs.210,470 which was not explained or supported. Further, the statement did not make any adjustment for depreciation amount of Kshs.4,514,850.

In the circumstances, the accuracy of the statement of cash flow for the year ended 30 June, 2019 could not be confirmed.

2. Unaccounted for General Expenses

2.1 Boarding and Equipment Expenses

The statement of financial performance and Note 14 to the financial statements reflects Kshs.56,392,295 as general expenses which includes Kshs.1,188,331 and Kshs.2,616,299 spent on production and boarding and equipment respectively. However, some quotations used for procurement of goods and services were not provided for audit review and there were also no inspection and acceptance reports on procured goods and the services rendered contrary to Section 48 of the Public Procurement and Asset Disposal Act, 2015. Further, some goods procured were not taken on charge in the stores ledgers and there were no issue notes to confirm the point of use.

2.2 Activity Expenses

Included in the general expenses balance of Kshs.56,392,295 in the statement of financial performance and Note 14 to the financial statements is an amount of Kshs.4,526,564 in respect of activity expenses. However, out of the total activity expenditure, an amount of Kshs.1,395,930 was not properly supported. In addition, the bus tickets, work tickets and details of fuel drawn including the areas and distances covered by the motor vehicles, list of participants and the reports prepared after the exercise were also not provided for audit review. Further, it was noted that the stores were not taken on charge in the stores ledgers.

2.3 Local Tours and Travel Expenses

The statement of financial performance and Note 14 to the financial statements reflects Kshs.56,392,295 as general expenses which includes Kshs.8,755,972 incurred on local tours and travel. However, an audit review of the expenditure revealed that an expenditure of Kshs.2,913,857 was not supported with bus tickets, work tickets, details of fuel drawn, areas and distances covered by the motor vehicles, list of participants and activity reports. It was further noted that the items purchased were not supported by S13 counter receipt vouchers, issue notes hence there was no evidence to proof that the goods were taken on charge in the stores ledgers.

2.4 Procurement of Insurance Services

Included in the general expenses balance of Kshs.56,392,295 in the statement of financial performance and Note 14 to the financial statements is an amount of Kshs.801,411 spent on insurance services for the Polytechnic. However, the mode of procurement used for acquiring the insurance services including the request for quotations, requisition from user department and other relevant documents for the expenditure were not provided for audit review. Further, it was noted that there was no evidence on use of an agent to secure the tender on behalf of the Polytechnic.

2.5 Contingency Expenses

The statement of financial performance and Note 14 to the financial statements reflects Kshs.56,392,295 as general expenses which includes Kshs.7,227,232 spent as contingency. However, an audit review of the expenditure revealed that of the total expenditure, amount of Kshs.4,811,220 was not supported with bus tickets, work tickets, imprest warrants, signed and stamped local service/purchase orders, inspection and acceptance reports, invoices, signed payment schedules, activity reports and full council meetings. Further, some of the goods and services were procured without competitive bidding process.

2.6 Tuition Fees Expenses

Included in the general expenses balance of Kshs.56,392,295 in the statement of financial performance and Note 14 to the financial statements is an amount of Kshs.2,076,853 in respect of tuition fees expenses. However, an amount of Kshs.1,450,627 was not properly supported with requisition notes from the user departments and no issue notes to confirm the point of use of the stores. Further, no quotations, counter receipt vouchers (S13) for the expenditure, stores ledgers, work tickets or bus tickets and copies of imprest warrants were provided for audit review.

2.7 Admission Expenses

The statement of financial performance and Note 14 to the financial statements reflects Kshs.56,392,295 as general expenses which includes Kshs.588,050 in respect of admission expenses. However, the payments were not supported with requisitions from user departments, quotations, invoices, local service orders, S13 counter receipt vouchers, issue notes. It was further noted that some contractors used were not in the prequalified list.

2.8 Development Expenses

The statement of financial performance and Note 14 to the financial statements reflects Kshs.56,392,295 as general expenses which includes Kshs.27,091,028 in respect of development expenses. However, an audit review of the expenditure revealed that an amount of Kshs.18,587,750 was not supported with bus tickets, work tickets, LPOs/LSOs, inspection and acceptance reports. In addition, there were no delivery notes, S13 counter receipt vouchers and issues notes for the expenditure. Further, the construction of the entry drive way was procured through restricted tendering without any justifiable reason contrary to Section 102(1) of the Public Procurement and Assets Disposal Act, 2015.

In the circumstances, the probity of the general expenses balance of Kshs.56,392,295 incurred in the year ended 30 June, 2019 could not be ascertained.

3. Unsupported Expenditure on Repairs and Maintenance

The statement of financial performance and Note 12 to the financial statements reflects a balance of Kshs.5,321,201 in respect of repairs and maintenance out of which Kshs.3,565,811 was paid to suppliers for supply and delivery of various goods and services. However, the expenditure was not supported with requisitions from user departments, S13 counter receipt vouchers, issue notes, and pre and post inspection reports for motor vehicles. Further, most of the procured goods and services were single sourced without any justifiable reason.

In the circumstances, the probity of the expenditure of repairs and maintenance of Kshs.5,321,201 as at 30 June, 2019 could not be ascertained.

4. Lack of Staff Establishment Records

The statement of financial performance reflects employee costs balance of Kshs.14,978,075. However, the Polytechnic did not provide approved staff establishment records that reflects authorized staffing levels in position for each category for audit review.

It was therefore, not possible to ascertain whether the Polytechnic had engaged the optimal number of employees for all categories.

5. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.4,779,444. However, the bank reconciliation statement for the development account No.1107469619 for the month of June, 2019 was not prepared. Further, the bank reconciliation statement for the Main Account for June, 2019 reflects a figure of Kshs.1,594,220 for unpresented cheques instead of Kshs.1,602,875 thus resulting to unexplained variance of Kshs.8,655.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.4,779,444 as at 30 June, 2019 could not be confirmed.

6. Unsupported Property, Plant and Equipment

The statement of financial position and Note 21 to the financial statements reflects property, plant and equipment with a net book value of Kshs.574,330,300. The movement schedule disclosed under Note 21 indicates an opening balance of Kshs.589,635,000. However, there was no valuation of the property to support the balance provided for audit review. Further, an asset register showing nature, number, type and book value of assets owned by the institution was not maintained.

Consequently, the accuracy of property, plant and equipment the balance of Kshs.574,330,300 as at 30 June, 2019 could not be confirmed.

7. Unsupported Depreciation

The statement of financial performance and Note 11 to the financial statements reflects the depreciation and amortization charge figure of Kshs.4,514,850 on property, plant and equipment as at 30 June, 2019. However, it was observed that the same was not supported. Further, it was established that the Polytechnic had no depreciation policy in place to provide guidance on depreciation rates to be applied on different asset classes.

In the circumstances, accuracy of the depreciation charge balance of Kshs.4,514,850 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the North Eastern National Polytechnic Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

1.1 Budgetary Process

A review of the budgetary process, control and performance revealed that there was no budget circular to departments on setting out the legal framework, instructions on the budget process and budget calendar and a copy of the formally approved budget maintained for the financial year ended 30 June, 2019. The basis for setting the budget estimates in the statement of comparison of budget and actual amounts could not be established.

1.2 Budget Analysis

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.93,637,434 and Kshs.55,202,518 respectively resulting to under-funding of Kshs.38,434,916 or 49% of the budget. Similarly, the Polytechnic expended Kshs.79,022,542 against an approved budget of Kshs.93,637,434 resulting to under-expenditure of Kshs.14,614,892 or 16% of the budget. The Institution Management ought to relook at the budget preparation process with a view to making it as effective and realistic as possible in order to achieve its objective.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of internal controls, risk management and overall governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Internal Audit Department

Section 160(1) of the Public Finance Management Act, 2012 (National Government) Regulations requires the internal auditors of the national government entity to; (a) review and evaluate budgetary performance, (b) give reasonable assurance on the risk management and (c) review the effectiveness of both financial and non-financial performance management systems of the entities.

Contrary to the Regulations, the Polytechnic had no internal auditor during the year under review and thus the audit committee was inactive.

In the circumstances, the Polytechnic was in breach of the law.

2. Lack of Risk Management Policy and Fraud Prevention Mechanisms

Section 165(1)(a) of the Public Finance Management Act, 2012 (National Government) Regulations states that each national government entity shall develop risk management strategies, which include fraud prevention mechanism. Contrary to the Act, the Polytechnic did not put in place a risk management policy and fraud prevention mechanisms to assist in enhancing its internal controls.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Polytechnic's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting, unless Management is aware of the intention to terminate the Polytechnic or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Polytechnic's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Polytechnic to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Polytechnic to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

20 December, 2021

IV. STATEMENT OF FINANCIAL PERFORMANCFOR THE YEAR ENDED 30 JUNE 2019

	Notes	2018-19	2017-18
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfers from the National Government–grants	6	38,440,000	49,387,500
		38,440,000	**49,387,500**
Revenue from exchange transactions			
Rendering of services- Fees from students	7	13,760,718	13,943,255
Other income	8	3,001,800	-
Revenue from exchange transactions		**16,762,518**	
Total revenue		**55,202,518**	**63,330,755**
Expenses			
Use of goods and services(Electricity Water and Conservancy)	9	2,080,747	-
Employee costs	10	14,978,075	7,546,726
Depreciation and amortization expense	11	4,514,850	4,514,850
Repairs and maintenance	12	5,321,201	7,605,823
General expenses	14	56,392,295	39,050,703
Finance costs	15	250,224	-
Total expenses		**83,537,392**	**58,718,102**
Net Surplus for the year (Deficit)		**(28,334,874)**	**4,612,653**

The notes set out on pages 23 to 63 form an integral part of the Annual Financial Statements.

V. STATEMENT OF FINANCIAL POSITIONAS AT 30TH JUNE 2019

	Notes	2018-19 Kshs	2017-18 Kshs
Assets			
Current assets			
Cash and cash equivalents	16	4,779,444	39,603,524
Receivables from exchange transactions	18	2,267,145	556,135
Receivables from non-exchange transactions	19	11,940,000	-
Inventories	20	171,032	46,900
		19,157,621	**40,206,559**
Non-current assets			
Property, plant and equipment	21	574,330,300	577,914,218
		574,330,300	**577,914,218**
Total assets		**593,487,621**	**619,052,359**
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	22	4,040,811	171,915
Current portion of borrowings		210,755	602,225
Deferred income	23	12,250,000	12,250,000
		16,501,566	**13,024,140**
Non-current liabilities			
Borrowings	24	1,909,384	1,909,384
		1,909,384	**1,909,384**
Total liabilities		**18,410,950**	**14,933,524**
Net assets		**575,076,671**	**604,118,835**
Accumulated surplus		-	-
Capital Fund			-
Total net assets and liabilities		**593,487,621**	**619,052,359**

The Financial Statements set out on pages 18 to 22 were signed on behalf of the Institute Council/ Board of Governors by:

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Chairman of Council	**Finance Officer**	**Principal**

VI. STATEMENT OF CHANGES IN NET ASSET FOR THE YEAR ENDED 30 JUNE 2019

	Retained earnings	Capital/ Development Grants/Fund	Total
At July 1, 2017	-	-	-
Total comprehensive income	4,612,653	-	4,612,653
Capital/Development grants received during the year	-	31,700,000	31,700,000
At June 30, 2018	**4,612,653**	**31,700,000**	**36,312,653**
At July 1, 2018	**4,612,653**	**31,700,000**	**36,312,653**
Total comprehensive income	(28,334,874)		(28,334,874)
Capital/Development grants received during the year	-	40,582,752	40,582,752
At June 30, 2019	**(23,722,221)**	**72,282,752**	**48,560,531**

VII. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	2018-19 Kshs	2017-18 Kshs
Cash flows from operating activities			
Receipts			
Transfers from other Government entities/Govt. grants	6	29,344,443	49,063,500
Rendering of services- Fees from students	7	13,760,718	13,943,255
Other income,	8	3,001,800	-
Total Receipts		**46,106,961**	**63,006,755**
Payments			
Compensation of employees	10	14,978,075	7,546,726
Use of goods and services	9	2,080,747	-
Finance cost	15	39,754	-
Other payments		61,713,496	46,656,526
Total Payments		**78,812,072**	**54,203,252**
Net cash flows from operating activities		**(32,705,111)**	**8,803,503**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets			(3,521,073)
Proceeds from sale of property, plant and Equipment	21		-
Decrease in non-current receivables	19	-	-
Net cash flows used in investing activities		**(731,000)**	**(3,521,073)**
Cash flows from financing activities			
Proceeds from borrowings	24	-	-
Repayment of borrowings	24	(210,470)	-
Increase in deposits		-	-
Net cash flows used in financing activities		**(210,470)**	**-**
Net increase/(decrease)in cash and cash equivalents		**(33,646,581)**	
Cash and cash equivalents at 1JULY 2018	16	39,603,524	34,321,094
Cash and cash equivalents at 30 JUNE 2019	16	**5,956,943**	**39,603,524**

VIII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019

	Original budget	Actual on comparable basis	Performance difference	
	2018-2019	**2018-2019**	**2018-2019**	
Revenue	**Kshs**	**Kshs**	**Kshs**	
Transfers from other Govt entities Govt grants	41,140,000	38,440,000	2,700,000	a
Rendering of services- Fees from students and other income	52,497,434	16,762,518	35,674,416	b
Total income	**93,637,434**	**55,202,518**	**38,434,916**	
Expenses				
Compensation of employees	10,046,008	14,978,075	(4,932,067)	c
Use of Goods and services (B.E.S & EWC)	8,980,400	4,697,046	4,283,354	d
Finance costs	-	250,224	(250,224)	e
General expenses & Repairs and maintenance	74,611,026	59,097,197	15,513,829	f
Total expenditure	**93,637,434**	**79,022,542**	**14,614,892**	
Surplus (deficit) for the period	**-**	**(23,820,024)**	**23,820,024**	

N/B

i) **Use of Goods and services includes B.ES Kshs 2,616,299, pg 49 and EWC Kshs 2,080,747, pg 46.**

ii) **General Expenses as indicated in the Statement of comparison of budget Kshs 56,392,295 pg 49 less BES Kshs 2,616,299 and includes RMI Kshs 5,321,201 pg 48 to total to Kshs 59,097,197.**

iii) **The deficit as shown in the statement of budget comparison is less with Kshs 4,514,850 depreciation since its not a cash movement.**

Budget notes

a) *We had not received our capitation as at 30th June 2019*
b) *We had only received a total of 523 students out of the budgeted figure of 1000*
c) *More lectures were recruited for the technical courses due to acute shortage*
d) *This was due to the less number of students received against the budgeted hence less expenses*
e) *Finance cost was not budgeted for in the current budget.*
f) *As in note D above the expenses were relatively lower due to the low number of students received than had been budgeted for.*

IX. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

North Eastern National Polytechnic is established by and derives its authority and accountability from the TVET Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is provision of Technical and Vocational training programmes.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *entity's* accounting policies.The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xx

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity*.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, the TVET Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2019** The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	**Applicable: 1st January 2022:** The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk

Standard	Effective date and impact:
	management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42: Social Benefits	**Applicable: 1st January 2022** The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess: (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized

in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

ii) Revenue from exchange transactions

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Revenue recognition (Continued)

ii) Revenue from exchange transactions (continued)

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2018/2019 was approved by the Council or Board on ***28 June 2019.*** Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section ***Reconciliation of Statement of Budget Comparison and Statement of Financial Performance*** on page 63of these financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Taxes (continued)

Sales tax/ Value Added Tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

c) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a period of ***xxx*** years.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.
Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite

g) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.
All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

j) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a payment, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. *The entity maintains Accumulated reserves which is accumulation of past surpluses and funding.*

l) Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

m) Employee benefits

Retirement benefit plans

The Entity does not provide a consolidated fund for a retirement benefit scheme other than the statutory deduction to the National Social Security Fund.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

n) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

o) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO/principal and senior managers.

q) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

t) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur .IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

NOTES TO THE FINANCIAL STATEMNTS CONTINUED.

6 (a)TRANSFERS FROM NATIONAL GOVERNMENT MINISTRIES

Description	2018-19	2017-18
	KShs	KShs
Unconditional grants		
Operational grant	20,140,632	37,687,500
Other grants(Development)	6,051,700	-
Deffered Capitation grants	11,940,000	
	38,132,332	**37,687,500**
Conditional grants		
Development grants	-	8,500,000
Grants for Mentored Institutions(TTIs)	38,035,504	3,200,000
Total government grants and subsidies	**76,167,836**	**49,387,500**

6(b) TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2018-2019
			KShs	KShs	KShs
State Department for Tech. Education	38,132,332	11,940,000	38,035,504	76,167,836	69,387,500
Total	**38,132,332**	**11,940,000**	**38,035,504**	**76,167,836**	**69,387,500**

(KShs 12,250,000 is the first batch of capitation for the 15,000 per student while the deferred income is the pending second batch of Kshs 15,000 per student)

7 RENDERING OF SERVICES

Description	2018-19 KShs	2017-18 KShs
Tuition fees	4,966,386	3,319,980
Activity fees	237,670	80,260
Library fees	199,050	206,370
Admission fees	1,577,130	492,734
Attachment fees	562,980	210,120
Boarding fees	1,287,811	1,034,190
Registration fees	102,790	117,110
Contingencies	265,300	95,600
Development levy	556,290	539,330
Electricity, Water and Conservancy fees	382,980	218,270
Insurance fees	193,100	128,910
Internet fees	169,510	251,180
Local Tours and travels	249,790	53,620
Medical fees	266,860	20,340
Personal Emoluments fees	2,339,631	988,050
Repairs and Maintenance fees	385,510	115,051
Other fees collections(packages, student council, caution)	78,430	147,950
Total revenue from the rendering of services	**13,821,218**	**8,019,065**

N/B According to the TVET Template sent by the Treasury, Production income, sale of tender and School based programme was classified as a stand a lone classification "Other Income'"

8 OTHER INCOME

Description	2018-19	2017-18
	KShs	KShs
Income from sale of tender	68,000	50,000
Production income	2,479,590	4,526,210
School based programme	454,210	1,347,980
Total other income	**3,001,800**	**5,924,190**

9 USE OF GOODS AND SERVICES

Description	2018-19	2017-18
	KShs	KShs
Electricity, Water and Conservancy	2,080,747	2,191,654
Total good and services	**2,080,747**	**2,191,654**

N/B Under the new template sent by the treasury for TVETS, Electricity, Water and Conservancy was classified under ' Use of Goods and Services)

10 EMPLOYEE COSTS

	2018-19 KShs	2017-18 KShs
Salaries and wages including (NHIF, PAYE)	14,235,045	7,546,726
NSSF contributions	435,830	
Employee costs	**14,670,875**	**7,546,726**

11 DEPRECIATION AND AMORTIZATION EXPENSE

Description	2018-19 KShs	2017-18 KShs
Property, plant and equipment	4,514,850	4,514,850
Total depreciation and amortization	**4,514,850**	**4,514,850**

12 REPAIRS AND MAINTENANCE

Description	2018-19	2017-18
	KShs	KShs
Property, Motor vehicles, machinery	5,321,201	7,605,823
Total repairs and maintenance	**5,321,201**	**7,605,823**

13 CONTRACTED SERVICES

Description	2018-19	2017-18
	KShs	KShs
Actuarial valuations	-	-
Total contracted services	-	-

14 GENERAL EXPENSES

Description	2018-19	2017-18
	KShs	KShs
Activity expenses	4,526,564	5,795,709
Attachment expenses	368,000	451,700
Boarding and equipment expenses	2,616,299	5,634,151
Contingency expenses	7,227,232	5,333,019
Imprest	194,000	106,000
Insurance	801,411	681,158
Development Expenses	27,091,028	5,978,085
Internet	313,200	533,830
Local tours and travel expenses	8,755,972	4,898,149
Production expenses	1,188,331	2,471,034
Registration expenses	71,250	119,250
School based expenses	574,105	1,957,213
Tuition fees expenses	2,076,853	1,221,932
Admission Expenses	588,050	552,400
NHIF		
NSSF		
PAYE		
Loan repayment		
Total general expenses	**56,392,295**	**35,733,630**

N/B Under the new template sent by the treasury for TVETS, Electricity, Water and Conservancy was classified under ' Use of Goods and Services"

15 FINANCE COSTS

Description	2018-19 KShs	2017-18 KShs
Borrowings(amortized cost)*	210,754	967,582
Interest on loans from commercial banks	39,470	65,835
Total finance costs	**250,224**	**1,033,417**

16 CASH AND CASH EQUIVALENTS

Description	2018-19 KShs	2017-18 KShs
Current account	3,731,106	32,889,880
On - call deposits	1,047,340	6,713,644
Total cash and cash equivalents	**4,778,446**	**39,603,524**

17(a).DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS

		2018-19	2017-18
Financial institution	**Account number**	**KShs**	**KShs**
a) **Current account**			
Kenya Commercial bank	110780226	5,327,545	32,889,880
Sub- total		**5,327,545**	**32,889,880**
b) On - call deposits			
Kenya Commercial bank	1107469619	1,041,906	6,713,644
Sub- total		**1,041,906**	**6,713,644**
Grand total		**6,369,451**	**39,603,524**

18 RECEIVABLES FROM EXCHANGE TRANSACTIONS

Description	2018-19 KShs	2017-18 KShs
Current receivables		
Student debtors	2,267,145	556,135
Other exchange debtors	-	-
Total current receivables	**2,267,145**	**556,135**
Non-current receivables	-	-
Total	-	-
Current portion transferred to current receivables	-	-
Total non-current receivables	-	-
Total receivables	**2,267,145**	**556,135**

19 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Description	2018-19 KShs	2017-2018 KShs
Current receivables		
Transfers from other govt. entities	11,940,000	-
Total current receivables	**11,940,000**	-

20 INVENTORIES

Description	2018-19 KShs	2017-18 KShs
Consumable stores		46,900
Total inventories at the lower of cost and net realizable value	**171,032**	**46,900**

21 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers	Other Assets (Specify)	Plant and equipment	Capital Work in progress	Total
Cost	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
At 1July 2017	**551,500,000**	**7,900,000**	**5,700,000**	**2,405,000**	-	**22,130,000**	-	**589,635,000**
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-	-	-	-
At 30thJune 2018	**551,500,000**	**7,900,000**	**5,700,000**	**2,405,000**	-	**22,130,000**	-	**589,635,000**
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-	-	-
At 30th June 2019	**551,500,000**	**7,900,000**	**5,700,000**	**2,405,000**	-	**22,130,000**	-	**589,635,000**
Depreciation and impairment	5%	2.5%	5%	7%	-	5%	-	
At 1July 2017	(2,500,000)	(1,100,000)	(500,000)	(55,000)	-	2,120,000	-	**(6,275,000)**
Depreciation	(2,757,500)	(197,500)	(285,000)	(168,350)	-	(1,106,500)	-	**(4,514,850)**
Impairment	-	-	-	-	-	-	-	-
At30 June2018	**5,257,500**	**1,297,500**	**785,000**	**223,350**	-	**3,226,500**	-	**10,789,850**
Depreciation	(2,757,500)	(197,500)	(285,000)	(168,350)	-	(1,106,500)	-	**(4,514,850)**
Disposals	-	-	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-	-	-
At 30th June 2019	**8,015,000**	**1,495,000**	**1,070,000**	**391,700**	-	**4,333,000**	-	**15,304,700**
Net book values	543,485,000	6,405,000	4,630,000	2,013,300	-	17,797,000	-	574,330,300
AS AT 30TH JUNE 2019	**543,485,000**	**6,405,000**	**4,630,000**	**2,013,300**	-	**17,797,000**	-	**574,330,300**

22 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2018-19 KShs	2017-18 KShs
Trade payables	4,040,811	171,915
Fees paid in advance	-	-
Other payables	-	-
Total trade and other payables	**4,040,811**	**171,915**

23 DEFERRED INCOME

Description		2018-19 KShs	2017-18 KShs
National government		12,250,000	12,250,500
Total deferred income		12,250,000	12,250,000

The deferred income movement is as follows:

	National government	International funders/ donors	Public contributions and donations	Total
Balance brought forward	12,250,000	-	-	12,250,000
Additions during the year	24,190,500	-	-	24,190,500
Transfers to Capital fund	-	-	-	-
Transfers to income statement	24,190,000	-	-	24,190,500
Other transfers	-	-	-	-
Balance carried forward	12,250,500	-	-	**12,250,000**

24 BORROWINGS

Description	2018-19 KShs	2017-18 KShs
Balance at beginning of the period	602,225	967,582
External borrowings during the year	-	-
Domestic borrowings during the year	-	-
Repayments of external borrowings during the year	-	-
Repayments of domestics borrowings during the year	(391,470)	365,357
Balance at end of the period	**210,755**	**602,225**

25 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The entity's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

At 30 June 2018	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
Receivables from exchange transactions	556,135	556,135	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	39,603,524	-	-	-
Total	**39,603,524**	**556,135**	**-**	**-**
At 30 June 2019				
Receivables from exchange transactions	1,338,640	1,338,640	-	-
Receivables from non-exchange transactions	12,250,000	12,250,000	12,250,000	-
Bank balances	6,369,451	-	-	-
Total	**19,958,091**	**13,588,640**	**12,250,000**	**-**

26. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Kshs	Between 1-3 months Kshs	Over 5 months Kshs	Total Kshs
At 30 June 2018				
Trade payables	72,065	76,450	23,400	171,915
Current portion of borrowings	-	-	602,225	602,225
Provisions	-	-	-	-
Deferred income	-	-	12,250,000	12,250,000
Employee benefit obligation	-	-	-	-
Total	**72,065**	**76,450**	**12,875,625**	**13,024,140**
At 30 June 2019				
Trade payables	609,706	540,765	2,890,340	4,040,811
Current portion of borrowings	-	-	210,755	210,755
Provisions	-	-	-	-
Deferred income	-	-	24,500,500	24,500,500
Employee benefit obligation	-	-	-	-
Total	**609,706**	**540,765**	**27,601,595**	**28,752,066**

FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk
To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

b) Interest rate risk (continued)

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

27 RELATED PARTY BALANCES

Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the *entity*, holding 100% of the *entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

i) The National Government;
ii) The Parent Ministry;

	2018-2019 Kshs	2017-2018 Kshs
Transactions with related parties		
a) Grants from the Government		
Grants from National Govt.	54,833,253	69,387,500
Grants from County Govt	-	-
Total	**54,833,253**	**69,387,500**
Total	**54,833,253**	**69,387,500**

28 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

29 ULTIMATE AND HOLDING ENTITY

The entity is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Education (State Department for Technical and Vocational Education). Its ultimate parent is the Government of Kenya.

30 Currency

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
1.1	Late Submission of Financial Statements	Being our first time adoption, there was a delay in preparation of Financial Statements due to delay in the training in the preparation of the same	Finance Officer	Resolved	
1.2	Omissions on the Financial Statements	Being the first year of adoption, there had been no training on the PSASB format for TVETS at the preparation of the Financial Statements	Finance 0fficer	Resolved	
2.0	Cash and Cash Equivalents	A physical Manual cash book has since been maintained from the time of the audit	Finance Officer	Resolved	
3.0	Unaccounted For Boarding and Equipment Expenses	The management endeavoured to adhere to the guidelines provided by the office of the OAG	Procurement Officer	Partly resolved	31/12/2020
4.0	Unaccounted for Activity Expense	Some of the missing documents were subsequently availed for scrutiny	Finance Officer	Partly resolved	30/06/2020
5.0	Unaccounted for Foreign Travel Expenses	The management promised to adhere by the guideline provided by the OAG. Some of the missing documents were	Finance Officer	Partly resolved	30/06/2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
		subsequently availed for scrutiny			
6.0	Procurement of Insurance Services	The Insurance service Was competitively sourced as the provider was in the list of prequalified suppliers for the FY 17/18	Procurement Officer	Not Resolved	30/06/2020
7.0	Unsupported Expenditure on repairs and Maintenance	The management in conjunction with the Procurement Office and Finance office provided some of the documents which were not availed during the audit for scrutiny.	Procurement Officer	Not Resolved	30/06/2020
8.0	Understatemen t of Fees	This was due to a casting error which was resolved.	Finance Officer	Resolved	
9.0	Property Plant and Equipment	The Management appointed valuers from the Ministry of Housing and Urban Development which will provide a report on the values of the asset	Principal	Not Resolved	30/06/2020
10.	Depreciation	The management has resolved to put in place a depreciation policy.	Principal	Not Resolved	30/06/2020
11	Budgetary Process	The Budget was prepared based on the estimates according to the number of students we expected to receive of which the actual figure was lower hence under collection of fees and capitation	Finance Officer	Not resolved	30/06/202

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
12	Human Resource Management	The employment of the Procurement Officer was done through advert on the Polytechnic website	Principal	Resolved	

.... Finance Officer

Date 9-3-2020

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the North Eastern National Polytechnic

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1. DRIVEWAY CONSTRUCTION	NENAP/PROJ/02/2018	GOK /AIA	3 MONTHS	6,000,000	NO	YES

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	DIRIVEWAY CONSTRUCTION	12,185,072	10,966,564	100%	12,205,072	12,205,072	GOK/ AIA

APPENDIX III: INTER-ENTITY TRANSFERS

	ENTITY NAME:			
	Break down of Transfers from the State Department of Technical and Vocational Education			
	FY 2018/19			
a.	Recurrent Grants			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		08/10/2018	12,250,500	2018/19
		08/10/2018	500,000	2018/19
		15/02/2019	500,000	2018/19
		27/06/2019	1,000,000	
		Total	**14,250,500**	
b.	Development Grants			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
	For Mentored Institutions	08/10/2018	6,116,507	-
	Driveway Construction	08/10/2018	1,273,625	2018/19
	For Mentored Institutions	25/01/2019	28,140,921	-
	Driveway Construction	08/03/2019	1,273,624	2018/19
	For Mentored Institutions	27/06/2019	3,778,076	2018/19
		Total	**40,582,753**	

The above amounts have been communicated to and reconciled with the parent Ministry

Finance Officer
North Eastern National Polytechnic

Sign ---------------

APPENDIX IV- RECONCILIATIONS

RECONCILIATION OF THE STATEMENT OF BUDGET COMPARISION DEFICIT AND THE STATEMENT OF FINANCIAL PERFORMANCE BALANCE.

Statement of Financial Performance deficit…………………28,334,874
Statement of Budget Comparison deficit……………………23,820,624

Statement of Financial Performance deficit…………………..28, 334,874
Less Depreciation Expenses (4,514,850)

Balance as of Statement of Budget comparisons…………..…23,820,624